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Witness: Kristy E. Nieto
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Cover Page

Exhibit 2: Low Income Task Force – Final Report, pages 6 - 26

C. PROPOSED REVISED LOW INCOME PROGRAM

1. Overview

The LITF was directed to design a new program to serve the low-income population currently enrolled in the LIP. This new program was named the Revised Low Income Program (RLIP) and is proposed as a permanent program for We Energies customers. Much of the design is similar to the current LIP, but several minor changes have been made. This section will describe the new program, changes from the previous program, and the LITF's justifications for those changes. The RLIP has been fine-tuned to respond to the PSCW Commissioners' concerns about the current LIP, to incorporate aspects of best practices from programs around the country and experiences with the current LIP, and to ensure more consistency with public policy, particularly with respect to energy conservation and weatherization programs.

2. Objectives

The LITF revised and streamlined the original objectives of the LIP and identified two primary objectives for the RLIP:

- Reduce the cost to serve the targeted segment of low-income customers.
- Maintain energy service of enrolled customers through ongoing customer payments.

The cost to serve low-income customers is high, regardless of their participation in a low-income program. As a group, they have limited resources to pay utility bills and rely heavily on outside sources such as energy assistance, crisis dollars and Keep Wisconsin Warm Funds for assistance with bills. As a result, and as the LITF found in the business case, this group of customers call social service agencies and the utility more frequently, pay inconsistently, get disconnected more often, tend to engage in unsafe practices such as energy diversion, and collectively demand more operational resources on a daily basis. The RLIP will enable We Energies to serve participating customers at a reduced cost to both the utility and ratepayers by offering a more affordable payment to participants. Lower payments increase the likelihood of more frequent payments, which decreases bad debt to We Energies. Regular payments also mean fewer service disconnections, which decreases the costs associated with disconnecting and reconnecting service, self-reconnections and negotiating satisfactory payment arrangements.

The success of the RLIP depends upon customers continuing to pay to maintain their energy services and the program is designed to achieve this objective. The RLIP will make utility service more affordable for low-income customers by continuing to offer subsidized monthly payments, requiring participants to apply for energy assistance to offset bills, and by offering arrears forgiveness. A more affordable payment and a lower arrearage increases the likelihood that customers can make regular payments and be able to maintain service for longer periods of time. Access to social service agencies ensures that participants have access to other programs, many of which provide funding to individuals, which will then enhance participants' ability to pay energy bills.

3. Population Served By the RLIP

As noted previously, the LITF closely studied and recognized the challenges of the population served by the current LIP. The RLIP targets the same geographic and demographic population.

The LITF discussed the prospect of expanding the population served by the RLIP. The LITF believes that based on the magnitude of poverty and other at-risk attributes of the population served by We Energies, the RLIP should be expanded to include all eligible low-income customers living in Milwaukee County. The LITF recommends retaining the current cap of 300 participants in Waukesha County.

The LITF also examined whether to expand eligibility for the RLIP to We Energies customers in other counties. The LITF recommends an expansion of the RLIP to the following counties where need has been identified and social service networks are present and willing to support the program:

- Kenosha County
- Racine County

The LITF evaluated poverty and other data for these areas and concluded there is a definite need for a low-income energy assistance program.

A key to the expansion of the RLIP is the existence of a support structure (agency/utility) to manage the program. When considering expansion of the program, the LITF recommends that We Energies should take the following steps:

- Examine the geographic region under consideration for an agency to partner with that is already established in the community; has a record of serving low-income and at-risk populations; has partnered with We Energies or a similar entity in the past; and has experience with intake processes, case management, and energy assistance.
- Incorporate best practices from the agencies already partnered with We Energies in the current LIP (Community Advocates and the Social Development Commission in Milwaukee) when establishing the RLIP.
- Analyze whether the RLIP requires adjustment to better serve the new enrollees, including establishing an appropriate enrollment cap.

Upon completion of the RLIP enrollment application, the agency reviews the terms and conditions of program participation, and signs a Revised Low Income Program Agreement form with the customer acknowledging their understanding and agreement to comply with program requirements. The signed RLIP enrollment form is submitted electronically to We Energies.

4. Enrollment

The program is designed to maintain a yearly customer base of 3,000 participants. The current LIP's enrollment eligibility criteria include a requirement for customers to be below 60% of the state median income level. In addition, current LIP participants must have:

- Only one active account,
- No record of self-reconnects of utility services,
- A record of being disconnected in the season preceding application,
- Arrears,
- A monthly budget of $65 or more,
- Applied for state energy assistance (WHEAP), and
- Accepted weatherization assistance, if offered.

The core eligibility criteria for RLIP would remain the same as the current LIP with a few exceptions. Under RLIP, customers still could not have active multiple accounts or a record of self-reconnects of utility services. The RLIP also maintains the requirement of arrears, a monthly budget amount of $65 or more, and application for state energy assistance.

The LITF recommends that additional flexibility be granted to program management for limited waivers of the disconnection requirement. Special consideration for enrollment within and outside of the enrollment period will be given to customers who demonstrate payment problems and have met the criteria for disconnection, but had not been disconnected in the prior season. To ensure the exception process is applied uniformly, these situations will be reported by RLIP social service agency case managers to We Energies management for review and enrollment consideration.

The LITF recommends that the current enrollment period (from January to June) be retained, as it aligns with staff resourcing and the availability of crisis funds. However, the LITF also recommends that additional flexibility be granted to program management for limited waivers to enroll customers outside of the enrollment period. Waivers would be granted to customers with special circumstances who may benefit from participation in the RLIP.

To supplement the participant pool to account for attrition, We Energies will query its customer system for potential participants at the beginning of each program year. A list of eligible customers will be generated based on the following criteria:

- Wisconsin residential account,
- Arrears balance,
- Received energy assistance (WHEAP) during the prior heating season,
- Disconnected in the previous season or in the current season prior to enrollment,
- Budget amount is greater than $65 at the time of the last bill, and
- No self-reconnects in the prior 24 months.

Customers who meet these criteria will be mailed a postcard that offers enrollment. Customers who respond to the postcard, along with other eligible customers identified by We Energies representatives at the time of contact, will be quoted a required down payment amount of twice the monthly budget amount, not to exceed $600, and referred to a participating RLIP agency.

Customers are required to provide proof of having made the required down payment before enrollment is confirmed. If the customer is unable to pay the entire down payment, the RLIP agency case manager has the option to make a "Promise Payment" to We Energies of up to half the required down payment amount to ensure the customer's enrollment in the RLIP.

Agency staff completes the customer's energy assistance application if needed, calculates the monthly RLIP payment by using the formula below and completes the RLIP enrollment with the customer.

<u>Inputs On Enrollment Form</u>

- Monthly Energy Budget: We Energies' premises budget amount
- Customer Co-Pay Percentage: from table on application form

CO-PAY CHART

Income level compared to Guideline	Customer variable co-payment %
Less than 75% FPG	30%
75% to 100% FPG	40%
Greater than 100% FPG	50%

- Energy Assistance Benefit: 1/12th of Energy assistance grant for the current season.

<u>Payment calculation formula:</u>

1. Monthly Energy Budget - 1/12th of Energy Assistance = Budget Less Energy Assistance
2. Budget Less Energy Assistance - $65 = Budget Less Fixed Payment

3. Budget Less Fixed Payment x Customer Co-Pay Percentage = Customer Variable Payment
4. Budget Less Fixed Payment - Customer Variable Payment = Co-Payment Charged to Escrow[4]

Customer Payment = $65 + Customer Variable Payment

Upon completion of the RLIP enrollment application, the agency reviews the terms and conditions of program participation, and signs a Revised Low Income Program Agreement form with the customer acknowledging their understanding and agreement to comply with program requirements.

The signed RLIP enrollment form is submitted electronically to We Energies where staff updates the Customer Service Solution (CSS) database.

5. Participation

While enrolled in the RLIP, customers must make a monthly payment that is calculated based on income, energy assistance funding available, and energy usage. The customer's monthly payment cannot be less than $65.

The original LIP required participants to attend educational workshops and accept weatherization assistance, if offered. The LITF considered the role of energy conservation and weatherization programs in the RLIP. Based on best practice research, the LITF concluded that although these programs play an important role in reducing overall energy use, it may not be the most cost-effective approach.

Based on current Wisconsin public policy and conversations with PSCW staff, We Energies plans to use current weatherization programs available through Focus on Energy. RLIP participants will be automatically screened for eligibility and participation in the state's weatherization programs and referrals will be made accordingly. We Energies also intends to utilize current voluntary programs under the Voluntary Filing in Response to Chapter PSC Rule 137.08 and Fulfillment of Order Point 71 of Docket 5-UR-103.

6. Benefits to Participants

Customers enrolled in the LIP receive a reduced monthly payment. The shortfall created by the reduced payment will be forgiven by the RLIP, similar to the old LIP. Although shortfalls are forgiven, credits that arise as a result of lower usage are not returned to the customer.

Customers who make three monthly on-time payments will receive forgiveness of 25% of their arrears. Thus, after a year of successful monthly payments, the customer's arrears are completely forgiven.

Customers enrolled in the RLIP will also be required to receive WHEAP benefits. Customers may be referred to weatherization and energy conservation programs. Customers enrolled in LIP also receive case management from the social service agencies that partner with We Energies in administering the program. Case management will give participants access to other programs, which already exist and are funded, and which enhance participants' ability to pay energy bills.

7. Removal Criteria

[4] "Co-Payment Charged to Escrow" is the amount that is applied (credited) to the customers account on a monthly basis and considered uncollectable expense and written off to the escrow account.

When considering the criteria for removal from the program, the LITF relied on the team's experience as well as a review of best practices.

The LITF recommends that customers be removed from the RLIP if they either fail to make required monthly payments or fail to receive energy assistance on an on-going basis. As with the LIP, customers may miss up to two payments and remain in the RLIP.

The current criteria for removal from the program will remain the same for the RLIP. However, the LITF recommends adding flexibility for exceptions such as a job loss. Agency caseworkers would work with We Energies program managers to allow a one-time exception for a missed a payment that would normally result in removal from the program if the customer notifies We Energies or the agency staff in a timely manner. We Energies will work with agency management to identify criteria to be used to ensure participating agencies and case managers apply exceptions uniformly.

Financial and energy conservation education will no longer be a requirement of the RLIP. Consequently, failure to attend sessions will not be cause for removal from the RLIP.

Any participating customer who moves is not eligible for continued enrollment in the RLIP if the new address is outside of the participating territories.

Customers who no longer meet eligibility requirements for the RLIP will receive a letter from We Energies informing them that they have been removed from the program. We Energies will remove the customer, and the customer will not be eligible for re-enrollment in the plan, unless special circumstances warrant an exception. Recommendations for one-time re-enrollments will be made by the RLIP agency to We Energies management for consideration.

8. Length of Program Participation

The LITF recommends that a customer's enrollment in the RLIP be indefinite as long as the customer continues to meet eligibility requirements.

9. Role of Social Service Agencies

The LITF reviewed best practices with respect to the involvement of social service agencies in utilities' low-income programs. The LITF concluded that social service agencies are uniquely qualified to provide case management and referrals to other programs, which are critical to the operation of the RLIP and can be done for a lower cost than We Energies. The LITF believes that there is a relationship between participant success and case management. The business case below notes that LIP participants received more energy assistance and paid more of their energy costs than other low-income customers not in the LIP. The LITF attributes this to case management, which ensures that participants are enrolled in programs (W2, Medicaid, Food Stamps, Rent Assistance, etc.) for which they qualify. Utilizing social service agencies is also consistent with the best practices research (See Appendix O).

Agencies may choose to offer conservation or financial educational sessions to RLIP participants at their discretion. Unlike the current LIP, financial and energy conservation education will not be a component of the RLIP. If educational sessions are not offered, case managers will have additional time to help clients who require special assistance in accessing other supportive services.

10. Escrow Accounting

In considering escrow accounting of uncollectible expenses, the LITF reviewed why it is important to We Energies, and whether escrow accounting should be a component of the RLIP design and approval.

In consideration of this, the LITF discussed the following questions:

- What is unique at We Energies to support using escrow accounting for uncollectible expenses?
- Does having escrow accounting of uncollectible expenses suppress the collections activities and effort of We Energies?

The LITF addressed the first issue by studying the demographics and economic conditions of the We Energies service territory and how those conditions compare to other utility service territories statewide and nationally. The evidence clearly indicates that customers in the We Energies service territory face severe economic conditions unlike those found elsewhere in Wisconsin. These conditions are reflected in poverty rates, the distribution of LIHEAP funding, and unemployment rates:

- Milwaukee County had a 20.1% poverty rate (2009) vs. Wisconsin state average of 12.4%,
- We Energies service territory contains more than 50% of Wisconsin's people in poverty,
- Milwaukee County has 17% of state population but has 28% of the households receiving LIHEAP funding, and
- We Energies service territory had unemployment rates 1 to 1.5% higher than other Wisconsin utilities.

The LITF concluded that We Energies faces greater financial risk from its residential arrears and uncollectible accounts than other Wisconsin utilities, and that the risk continues despite proactive and increased collection efforts on the company's part.

Similar to other large metropolitan areas, Milwaukee's high percentage of people in poverty has been recognized (*Milwaukee Journal Sentinel*, 9/28/2010):

Percent of People in Poverty	
Detroit, MI	36.4%
Cleveland, OH	35.0%
Buffalo, NY	28.8%
Milwaukee, WI	27.0%
St Louis, MO	26.7%
Miami, FL	26.5%
Memphis, TN	26.2%
Cincinnati, OH	25.7%
Philadelphia, PA	25.0%
Newark, NJ	23.9%

The LITF looked at accounting treatment provided to other utilities serving economically distressed populations in the U.S. This research identified other regulatory commissions across the country that have authorized escrow accounting treatment (or a similar treatment) for uncollectible expenses for a number of utilities with similar demographics.[5] The research is summarized in the table below.

[5] It is important to note that some states have a shorter or no moratorium on disconnecting utility services.

	ELECTRIC		Gas	
	Local Electric Distribution Utility	Bad Debt Def Cost Clause	Gas Distribution	Bad Debt Def Cost Clause
Detroit	Detroit Edison	Yes	Michigan Consolidated Gas	Yes
Cleveland	Cleveland Electric	Yes	Dominion Ohio East	Yes
Buffalo	Niagara Mohawk (National Grid)	No	NYSEG	No
Milwaukee	WEPCo	Yes	WI Gas/WEGO	Yes
Milw Metro	WEPCo		WI Gas/WEGO	
St Louis	Ameren Electric	No	Laclede Gas Company	No
Miami	Florida P&L	No	Florida City Gas	No**
Memphis	Memphis Light, Gas & Water Division	No**	Memphis Light, Gas & Water Division	No**
Cincinnati	Duke Power - Ohio	Yes	Duke Power - Ohio	Yes
Philadelphia	PECO	No**	Philadelphia Gas Works & PECO	No**
NYC	Con Ed	No	Con Ed	De-coupling
Newark	PSEG	Yes	PSEG	Societal Benefits
Chicago	Commonwealth Edison	Yes	Peoples Gas	Yes

** Research of regulatory treatments still in process - assumed no protection at this time

The LITF considered the second issue (i.e. collection efforts) by reviewing the overall collections activities, philosophy and practices of We Energies with respect to residential customers and how those collection activities have changed and improved throughout the last five years. The LITF believes, based on feedback from We Energies and PSCW staff members serving on the LITF, that the collections practices at We Energies are appropriately focused to reduce electric and gas expense within the structure of the Wisconsin Administrative Code. The LITF also concluded that the strong We Energies collection program does not appear to be adversely impacted by the utility's use of escrow accounting to reduce uncollectible expenses.

Based on the information presented, the LITF discussed the size and uncertainty of uncollectible expenses at We Energies. The LITF discussed how variations in natural gas prices, electricity prices, weather, and changes in energy assistance program funding can have a significant impact on the level of a utility's uncollectible expenses. We Energies may therefore be assuming proportionally greater risk of residential uncollectible expense than any other Wisconsin utility. From these discussions, LITF members have a better understanding of escrow accounting than before convening, and the LITF recommends that it is in the ratepayers' and utility's best interest for We Energies to have escrow accounting treatment of all residential uncollectible expenses.

See Appendix L for a copy of the We Energies presentation to the LITF on escrow accounting.

11. Business Case Cost Analysis

The LITF carefully examined the business case and the previous cost-benefit analysis performed on this program. The task force could not understand why the business case information appeared negative. From the utility's point of view, the LIP customers created fewer phone calls, less collection action, and made regular monthly payments. However, the utility had not, at that time, mined the customer information system to support this perception. A subcommittee of the LITF was formed to take a fresh look at the cost of the low-income customers and to specifically look at those costs from the perspective of a ratepayer. As noted in the attached letter of support from TetraTech (previously named PA Consulting), which performed an earlier analysis of the current LIP, the revised method is a more direct analysis of the program's impact on the utility and ratepayers than the previous analysis method.

During its presentation to the LITF, TetraTech explained that the previous analysis was not developed with the intent of illustrating the effectiveness of the program as a whole. Rather, they were directed to develop a cost-benefit analysis in the traditional sense of the word – what are the costs going out from the utility (e.g., co-payments), and what are the benefits coming into the utility (e.g., revenue from the customer). In addition, TetraTech explained that the perspective represented within the 2009 report was not encompassing in that it did not examine the costs of serving this population in the absence of the LIP. It did not consider the direct costs or the impact of lost revenue to We Energies and its other ratepayers that result when LIP customers experience service disconnections.

The LITF subcommittee included representatives from the PSCW and We Energies, as well as the TetraTech analyst that led the Year Three evaluation of the LIP. For the most part, the LITF's sub-committee used the same assumptions and data that TetraTech used in the Year Three evaluation of the LIP. The most significant differences were that 1) the sub-committee compared the cost of serving LIP participants to the cost of serving other customers eligible for the current LIP who were not in the program, and 2) the analysis took into account that a portion of the costs would not be recovered without program intervention.

In addition to data collected by the program evaluation, the analysis incorporated actual customer usage, payment, and contact data. We Energies selected a random sample of approximately 40 customers. Half of the sample participated in the program, and half did not participate.

The samples showed that the number of payments increased with participation in the current LIP, which included increases in assistance payments.

	Non LIP			LIP			
	$	% of Pymnt	% of Bill	$	% of Pymnt	% of Bill	Difference
Revenue per Customer	$2,486.78			$2,870.78			$384.01
Payments to WE /cust							
- Customer	$782.47	58%	31%	$1,304.43	60%	45%	$521.96
- Assistance	$574.02	42%	23%	$874.53	40%	30%	$300.51
Total Payments	$1,356.48		55%	$2,178.96		76%	$822.47
Uncollectible Exp/cust	$1,130.29			$691.83			-$438.47
# of Payments/cust/yr	3.4			12.0			

The samples also showed that customers who were not participating in the current LIP had substantially higher interactions with We Energies than those who were participating in the current LIP. On average, a non-LIP low-income customer made eleven calls per year versus four among the LIP customers. The LITF subcommittee did not have the specific length of the calls, so it assumed that each call lasted 15 minutes, which is a conservative estimate.

	Non LIP	LIP
Calls /customer/yr	11	4
Types of calls		
General Cust Serv	2.9	4
Disconnect calls	5.1	0
Collection/litigation	1.7	0
Medical Condition	1.3	0
Assumed Average call		
(min/cust/call)	15	15
Disconnects /cust/yr	0.8	0

A number of variables fed into the complete analysis, including costs for agency services, cost of energy service, number and amount of customer payments, and direct costs of services provided by We Energies to the customer (including costs for telephone contacts, field activities for disconnects and reconnects, processes to verify the customer's identity, etc.).

The business case reviewed a single year snapshot of customer usage and program data for the 40 cases randomly sampled. The cost assessment related to the LIP participants and eligible non-LIP participants is shown below. The table illustrates the cost of running the LIP, with the agencies' support, compared with not running the LIP.

		2011 estimate		LIP vs w/o LIP
		w/ LIP w Agencies	w/o LIP	
WE O&M costs				
WE Program Admin Costs		$362,936	$594,812	($231,876)
Payment to agencies for admin		$450,000	$0	$450,000
Disconnect & Reconnect costs		$89,896	$163,447	($73,551)
Pos ID Costs		$0	$2,340	($2,340)
Subtotal O&M costs		$902,832	$760,599	$142,233
WE Uncollectible expense				
Cost of WE Utility Energy Service		$7,979,031	$7,460,330	$518,702
Customer Payments		-$5,180,011	-$4,069,450	($1,110,561)
Subtotal Uncollectible expense		$2,799,020	$3,390,880	($591,860)
Total Net Costs		$3,701,852	$4,151,479	($449,627)
Net Participants		3,000	3,000	
Cost per Net Participant		$1,233.95	$1,383.83	
Utility Ratepayer Benefit/Cost ratio	1.12			

The analysis shows that in the initial year of the program, the estimated cost (including uncollectible expense) to serve a low-income customer participating in the LIP was $1,234 versus a cost of $1,383 for a low-income customer not participating in the LIP. The initial year had a utility customer benefit/cost ratio of 1.12 – meaning the benefits exceeded the costs.

The analysis also shows that attrition costs declined over time as LIP participants paid on a more regular basis. In subsequent years, as the customer base of successful participants grows, the attrition costs are reduced, and the benefit/cost ratio continues to rise (e.g. from 1.12 to 1.16 by year three) as shown below:

From 3/2009 Study	
	Retention
Year 1 Remain	45%
Year 2 Remain	25%
Year 3 Remain	19%
Other Years	15%

	Success %	B/C Ratio
Year 1	45%	1.12
Year 2	50%	1.14
Year 3	55%	1.16

See Appendix K for copies of the presentation by We Energies on the business case to the LITF, and the presentation by TetraTech on the business case.

12. Performance Goals

We Energies will evaluate the business case for the RLIP every two years to determine the ongoing performance and benefits of the program. Results of the evaluations will be submitted to the PSC as part of We Energies' future rate case applications.

13. LIP and RLIP Side-By-Side

The following table summarizes the current LIP and the RLIP.

	Current Low Income Pilot	Revised Low Income Program
Population Served	We Energies customers below 60% of the state median income level, who: - Reside in Milwaukee County or Waukesha County, - Receive WHEAP assistance, - No record of self-reconnects, - Have arrears, - Were disconnected in the season preceding enrollment.	We Energies customers below 60% of the state median income level, who: - Reside in Milwaukee County or Waukesha County, - Receive WHEAP assistance, - No record of self-reconnects, - Have arrears, - Were disconnected in the season preceding enrollment, - Limited exceptions to enroll customers outside of the enrollment period, and - Limited waiver of no disconnects requirement.
Enrollment Cap	- 3,000 in Milwaukee County - 300 in Waukesha County	- 3,000 in Milwaukee County - 300 in Waukesha County
Expansion	No expansion.	- Recommended expansion to Kenosha and Racine County. - Expand in Milwaukee
Enrollment Period	January to June	January to June
Down Payment	Two times the customer's budget bill payment, not to exceed $600.	Two times the customer's budget bill payment, not to exceed $600.
Monthly Payment	Calculated based on income, energy assistance funding, and energy usage. Not to be less than $65.	Calculated based on income, energy assistance funding, and energy usage. Not to be less than $65.
Benefits to Participants	- Discounted monthly payment - Forgiveness of payment shortfall - 25% of arrears forgiven after 3 months of payments - Referral to weatherization services - Accept weatherization if it is offered	- Discounted monthly payment - Forgiveness of payment shortfall - 25% of arrears forgiven after 3 months of payments - Referral to weatherization services

Education Component	Conservation and financial literacy education required.	No required education component. Participants will be referred to other programs if necessary.
Removal Criteria	- Missing 2 monthly payments - Failure to receive energy assistance - Failure to participate in education component	- Missing 2 monthly payments - Failure to receive energy assistance - Added flexibility for exceptions
Length of Program	Indefinite, as long as customer meets eligibility and participation requirements	Indefinite, as long as customer meets eligibility and participation requirements
Role of Social Service Agencies	Enrollment, case management	Enrollment, case management
Inclusion of Escrow Accounting	Included	Recommended

D. OTHER ISSUES DISCUSSED

In addition to examining the current LIP and designing the RLIP, the LITF examined three other issues that were important to the LITF's work. The LITF learned about Wisconsin's weatherization program, best practices for serving low-income utility customers, and the viability of lifeline rates.

1. Weatherization

Susan Brown, Deputy Administrator of the Wisconsin Department of Administration's Division of Energy Services, and Bob Jones, the Public Policy Director of the Wisconsin Community Action Program (WISCAP) briefed the LITF on Wisconsin's weatherization programs. See Appendices L and M for copies of their presentations.

2. Best Practices

The LITF commissioned a research project of best practices for energy assistance programs. An independent research consultant, Michael Bare, retained by the Community Advocates Public Policy Institute, conducted this analysis. Mr. Bare produced a report called, "An Exploration of Solutions to Low-Income Populations' Energy Needs" (See Appendix N). Mr. Bare also gave a presentation to the LITF on his research (See Appendix O).

The best practices research identified four issues that the LITF was examining: customer payments, arrears, disconnects, and usage. The research concluded that for this target population, the four issues have been addressed by several discrete policy systems that are often disjointed and administered with little to no coordination.

A survey of energy assistance programs around the country revealed that there are several policy approaches to each issue.

<u>Customer Payments</u>: To address payment, the federal government established LIHEAP and loan programs; state governments instituted percentage of income payment plans (PIPP), required utilities to offer energy assistance programs, provided emergency assistance, created tax rebates and credits, mandated discounts, and created funds to distribute assistance money. Municipal governments rarely have emergency assistance or loan programs available.

Utilities have created programs like the LIP, and have offered budget programs, financial education, bill credits, discounts, and emergency assistance funds.

Community organizations have created direct assistance programs to help at-risk populations with energy needs and have partnered with governments and utilities to administer their energy assistance programs.

<u>Arrears</u>: To address arrears, utilities have created programs that include a forgiveness component if participants meet certain requirements while in the program.

<u>Disconnects</u>: To address disconnects, states have established varying levels of shutoff moratoriums. These include date and temperature-based moratoriums, though not all states have either one. Utilities have also incorporated disconnect policies into energy assistance programs.

<u>Usage</u>: To address usage, the federal government and state governments have created weatherization programs that lower customers' bills and provide an investment in the home. Utilities and community

organizations have also created weatherization programs and sometimes provide in-home audits and conservation/efficiency education programs.

The research found that governments, utilities, and community organizations all play a role in providing energy assistance. Governments (federal, state, and local) provide shutoff moratoriums, bill assistance, loans, weatherization programs, emergency relief/assistance, tax rebates and credits, homelessness prevention programs, and establish funds to provide financial assistance to individuals and organizations. Utilities provide in-home audits and weatherization, bill assistance, bill credits and discounts, and education programs; accept donations (from customers, shareholders, employees and private sources) to establish funds for assistance efforts; match donations to funds; and create holistic programs (like the We Energies Low Income Pilot). Community organizations, and partnerships of governments, utilities, and community organizations, also offer varying levels of the types of assistance programs.

A case study of the American Community Survey's five poorest cities in America (Detroit, Cleveland, Buffalo, Milwaukee, and St. Louis) revealed that low-income Milwaukeeans must rely more on the utility for assistance than the other assistance sources. A comparable level of service is available in Buffalo and St. Louis, with Milwaukee exhibiting a higher level of community assistance in part because of the LIP's partnership with community service agencies. In Cleveland, the state provides a percentage of income payment plan (PIPP), which allows the other sources to provide a low level of assistance. In Detroit, the level of assistance available from any source is lackluster. When compared to the other cities, the level of assistance available to Milwaukee's low-income population receives a high rating. However, without the current LIP program, Milwaukee's low-income population would be in a comparatively worse situation.

The best practices research concluded that there is no discernable best practice to comprehensively address the energy needs of at-risk populations, but that common practices and best practices for program components could provide useful context for evaluating LIP and be incorporated into the RLIP to make a better program than the current LIP.

3. Lifeline Rates

The term "lifeline rate" can have multiple meanings, but most typically it refers to some form of inclining block rate where a customer pays a lower rate for the first block of energy used and higher rates for additional energy used. The Commission's June 15, 2010, order charged the LITF with looking at the pros and cons of lifeline rates, and the LITF has done so. This section summarizes those findings.

<u>Research By PSCW Staff</u>

1. Statutory Authority for Lifeline Rates

Wisconsin statutes do not explicitly allow or disallow for lifeline rates. The standard for lawful rates specified in Wis. Stats. §196.3716 would apply:

> "(1) If, after an investigation under this chapter or ch. 197, the commission finds rates, tolls, charges, schedules or joint rates to be unjust, unreasonable, insufficient or unjustly discriminatory or preferential or otherwise unreasonable or unlawful, the commission shall determine and order reasonable rates, tolls, charges, schedules or joint rates to be imposed, observed and followed in the future.
> (2) If the commission finds that any measurement, regulation, practice, act or service is unjust, unreasonable, insufficient, preferential, unjustly discriminatory or otherwise unreasonable or unlawful, or that any service is inadequate, or that any service which reasonably can be demanded

> cannot be obtained, the commission shall determine and make any just and reasonable order relating to a measurement, regulation, practice, act or service to be furnished, imposed, observed and followed in the future."

In contrast, lifeline rates are explicitly authorized in federal law under 16 USC §2624, which is titled "Lifeline rates" and reads in part as follows:

> "(a) Lower rates
>
> No provision of this chapter prohibits a State regulatory authority (with respect to an electric utility for which it has ratemaking authority) or a nonregulated electric utility from fixing, approving, or allowing to go into effect a rate for essential needs (as defined by the State regulatory authority or by the nonregulated electric utility, as the case may be) of residential electric consumers which is lower than a rate under the standard referred to in section 2621(d)(1) of this title.
>
> (b) Determination
>
> If any State regulated electric utility or nonregulated electric utility does not have a lower rate as described in subsection (a) of this section in effect two years after November 9, 1978, the State regulatory authority having ratemaking authority with respect to such State regulated electric utility or the nonregulated electric utility, as the case may be, shall determine, after an evidentiary hearing, whether such a rate should be implemented by such utility."

The "*standard referred to in section 2621(d)(1) of this title*" is the well-known cost of service standard, which is detailed in 16 USC §2625(a) and will not be repeated here.

Considering all of the above, the bottom line is that state commissions are not only authorized by federal law to set rates for "essential needs" of residential customers that are less than the traditional cost of service standard, but were mandated to determine decades ago whether such rates should be implemented by each utility they regulate.

2. PSC Determination Mandated by 16 USC §2624(b)

In 1979 the Commission opened docket 05-UR-9, *Generic Investigation on the Commission's Own Motion Whether or Not to Implement Electric and Natural Gas Utility Lifeline Rates*. Although PSCW staff has not succeeded in finding any of the supporting documents from this 30-year-old docket, the Commission's final order of March 3, 1981 was archived and is included with this report as Appendix R. PSCW staff members serving on the LITF do not believe that the Commission in 2010 was aware of the existence of the 1979 generic investigation or the 1981 order when it ordered the LITF to investigate the pros and cons of lifeline rates.

In the 1981 order, the Commission closed its generic investigation without ordering any utility to implement a lifeline rate. The Commission did, however, order that its Findings of Fact and Final Environmental Impact Statement on Lifeline Rates should receive official notice in any rate case in which lifeline rates are considered. Two items in the Findings of Fact seem especially germane to the LITF's consideration of lifeline rates:

- Based on the record, the Commission found that it was not appropriate to implement a specific statewide lifeline rate or general lifeline rate at that time.
- The Commission found that lifeline rates are an appropriate issue for consideration in individual rate proceedings.

It is difficult to untangle, thirty years after the fact, exactly *why* the Commission found statewide lifeline rates inappropriate. However, two of the three Commissioners wrote concurring opinions arguing forcefully against lifeline rates, and we can glean some insights from those opinions.

Chairman Stanley York called targeted lifeline rates for low income customers a form of income redistribution, and argued that "it would be totally inappropriate for an appointed body to take that kind of authority unto itself… [S]uch a responsibility belongs only to elected officials and the legislative process." Chairman York further argued that universal lifeline rates available to all customers would also be fatally flawed, because he rejected what he saw as the underlying premise: that residential consumers have a *right* to a certain amount of service at rates below their utilities' costs to serve them. Chairman York also noted the difficulty as a practical matter of determining how much energy was needed to meet the essential needs of residential customers. Finally, the Chairman noted that even if he could accept the philosophical rationale for lifeline rates, he could not support rates that penalize persons who use large amounts of energy.

Commissioner Willie Nunnery focused his concurring opinion on the Commission's authority under Wis. Stats. Chapter 196. He believed that targeted lifeline rates for low income customers would be unlawfully discriminatory because in his interpretation the statute did not allow for discrimination in rates based on ability to pay. Commissioner Nunnery felt that lifeline rates should not be implemented without a "clearly definable statutory prescription for establishing a 'justly discriminatory' rate."

3. Lifeline Rates Offered by Wisconsin Energy Utilities

In a 1980 rate case (docket 3270-UR-9) for Madison Gas and Electric Company (MGE), the Commission approved experimental lifeline rates for residential gas customers and residential electric customers. This experiment happened prior to the generic investigation described above and was unique to MGE. In 1984, subsequent to the generic investigation, the Commission ordered a study of the *effectiveness* of MGE's lifeline rates. That study ultimately resulted in the cancellation of the experiment, after Commission staff testified in a later rate case that the lifeline rates had performed poorly in meeting their objectives of reducing energy burdens and promoting energy conservation. The lifeline rates were closed to new customers as of July 30, 1985, but customers who were already on those tariffs at that time were allowed to remain on them as long as they continued to meet all of the eligibility requirements.

According to MGE's 2009 Annual Report to PSC, there were only 20 customers remaining on the gas lifeline tariff and just 27 on the electric lifeline tariff.

MGE's gas lifeline rate is 2 cents/therm cheaper than the ordinary residential rate from November 1 to March 31 of each year, and the same price the rest of the year. This represents a 7.3% cost reduction during those winter months. For electricity, the lifeline rate differs from the typical residential rate in terms of both the daily customer charge and the charge per kWh for the first 300 kWh used in each billing period. The daily customer charge is reduced by 45% (12.81 cents/day). The charge per kWh for the first 300 kWh used in each billing period is reduced by 33%: at today's rates, 3.607 cents/kWh from June 1 to September 30 of each year and 3.323 cents/kWh (34%) the rest of the year.

PSC staff members serving on the LITF are not aware of any other Wisconsin energy utilities or cooperatives that currently offer lifeline rates.

Research By We Energies

At the request of the LITF, staff at We Energies looked for published research and analysis that would supplement the findings in the Commission's 1981 order on lifeline rates. Staff from We Energies ultimately found that the following five publications were the most helpful to them:

- Costello, K., "Criteria for Determining the Effectiveness of Utility-Initiated Energy Assistance," *The Electricity Journal*, April 2010.
- Faruqui, A. and Hledik, R., "Transition to Dynamic Pricing," *Public Utilities Fortnightly*, April 2009.
- Tremolet, S. and Binder, D., "Social Pricing and Rural Issues: What are the Strength and Limitations of Lifeline Rates?" from the website of the Public Utility Research Center at the University of Florida (http://www.regulationbodyofknowledge.org/faq/socLifelineRates/), June 2009.
- Hennessy, M., "The Evaluation of Lifeline Electricity Rates, Methods and Myths," *Evaluation Review*, June 1984.
- Burgess, B. and Paglin, M., "Lifeline Electricity Rates as an Income Transfer Device," *Land Economics*, February 1981.

In addition to the above publications, which look generically at the issue of lifeline rates, staff from We Energies reported on the results of an Edison Electric Institute query of member utilities in September 2010. Nine of the utilities that responded to the survey reported that they offer lifeline rates to some or all of their residential customers, along with the reason why:

- APS (AZ), because of a rate case settlement;
- Entergy (LA), voluntarily;
- Hawaiian Electric Company (HI), voluntarily;
- Northern States Power-Minnesota (MN), because of a legislative mandate;
- PacifiCorp (CA), because of a legislative mandate;
- PacifiCorp (UT), because of a merger commitment;
- PacifiCorp (WA), voluntarily;
- PPL (PA), because of a utility commission requirement; and
- Southern California Edison (SC), because of a legislative mandate.

Additional information about the Minnesota legislative mandate is presented in the subsection below titled "Research By the Community Public Policy Institute."

Perhaps most notable on the list of utilities offering lifeline rates are those in California, where a state law requires utilities to offer tiered rates for residential gas and electricity usage – i.e., an inclining block rate structure beginning with a lifeline rate for "baseline quantities" of energy. The baseline quantities are determined by the utility commission and vary geographically across the state. California utilities must also offer the lifeline rate for an additional quantity of energy, beyond the ordinary baseline quantity, in cases where the customer can demonstrate a medical need.

Research By the Community Advocates Public Policy Institute

Researcher Michael Bare examined a wide variety of low income energy assistance policies across the United States. On the topic of discounted energy rates such as lifeline rates, Mr. Bare cites two examples of policies enacted by state governments:

- In Massachusetts, state law requires utilities to offer discounts of 20 to 42% to households earning less than 175% of the federal poverty guidelines or participating in a means-tested public assistance program.
- Minnesota law requires utilities with more than 200,000 customers to offer a 50% discount on the first 300kWh of low-income households' energy usage. In practice, this only affects Northern States Power-Minnesota d.b.a. Xcel Energy.

Mr. Bare also notes that many individual utilities offer some kind of discounted rates for various at-risk populations. The discounts are targeted to help those with medical equipment needs, the elderly, people with disabilities, and active duty members of the military. Amounts and how the discount is applied vary greatly. Several specific examples of energy utilities that offer discounted/lifeline rates are cited:

- The municipal utility serving Ashland, Oregon provides a 20% to 30% discount on water, wastewater, and electric service to residents over the age of 65 who qualify as low-income.
- In the District of Columbia, Potomac Electric Power Company (PEPCO) received approval from the DC Public Service Commission to provide lifeline rates. Eligible customers without all-electric heating receive a 32 percent discount on the first 400 kilowatt-hours used in the winter months and a 63 percent discount on the first 400 kilowatt-hours used in the summer months. Eligible customers with all-electric heating receive a 51 percent discount on the first 700 kilowatt-hours used in the winter months and a 38 percent discount on the first 700 kilowatt-hours used in the summer months. The eligibility criteria account for income, age, and disability, and customers must reapply annually.
- In Arizona, UniSource Energy Services operates the CARES Medical Life Support Program, which provides discounts for qualified low-income customers who require the use of life support equipment in their homes. Eligibility is confirmed through an annual verification by the customer's physician. The program provides a 30% discount on the first block of 600 kilowatt-hours used each month, a 20% discount on the next 600 kWh block, a 10% discount on the next 800 kWh block, and an $8 discount on any monthly usage greater than 2000 kWh.

Pros and Cons of Lifeline Rates for Electric and Gas Service

The previously mentioned 1981 PSC order in docket 05-UR-9 offers a lengthy yet concise review of the pros and cons of lifeline rates from the perspectives of utilities, low income customers, and other ratepayers. The order summarizes the Commission's findings on the legality and equity of lifeline rates, the impact of such rates on conservation, and alternatives. Rather than repeating those findings here, a copy of the order is included as Appendix R.

The following list of pros and cons of lifeline rates, based on research by We Energies' staff, is intended to supplement and give different perspectives on the pros and cons identified in the 1981 PSC order:

1. Lifeline Rates for Low Income Residential Customers Only

- Pros:
  - Gives low income customers access to some minimum amount of energy at a lower cost.
  - Seen as one of many instruments that the government can use to mitigate the burden of energy costs on the poor.
  - Current assistance programs are inadequate because not all persons in need apply, persons above designated criteria receive no assistance, and benefit levels are inadequate.
  - *Assuming* energy consumption correlates highly with income, lifeline rates would benefit low-income customers.

  - *May* reduce uncollectable, disconnection, and collection costs.
  - Gives larger customers more incentive to conserve.

- Cons:
  - Legal questions about whether this constitutes unjust and therefore unlawful discrimination never seem to go away – despite PURPA.
  - Uses resources to provide benefits to many customers who already pay their bills. (We Energies estimates ~200,000 current customers are at or below 60% of state median income vs. ~9,000 customers enrolled in EIP and LIP.)
  - Apartment dwellers that have electric and/or gas included in their rent would not be able to obtain the benefit.
  - While it appears that average usage is correlated with income, the dispersion around the mean is great. Net result is that a significant number of low-income, high-use customers could be harmed.
  - For small users, could encourage an increase in consumption, which causes inefficiencies in transfer of the benefit to the low-income customer.
  - Determination of who qualifies for the rate may be burdensome and costly, both initially and on a recurrent basis.
  - Does not follow cost of service principles generally used by the PSCW.
  - Counter to the goal of equitable rates to consumers.
  - Targeted assistance programs are a much more direct, efficient approach.
  - Decreased revenue stability for the utility.
  - May induce rural lifeline customers to switch to electric heat.
  - Such rate making would in effect constitute taxation, and taxation for the purpose of income redistribution is a function of the legislature.
  - Can create price distortions if the price paid does not reflect the marginal cost of the service.
  - If paid for by higher rates on business customers, could increase costs of goods and services for everyone.

2. Lifeline Rates for All Residential Customers

- Pros:
  - Would not have to check customer qualifications to be on the rate.
  - For heavy energy users, would promote conservation.
  - Residential rate application would be uniform for all residential customers.

- Cons:
  - The price for usage above the lifeline amount would be much higher, hurting high use, low-income customers.
  - Lifestyle issues – for example, small but luxurious apartments/condos, and those who dine out frequently would gain unneeded income transfer.
  - Those who own resort cottages or vacation homes would also gain unneeded income transfer.
  - May interfere with Time of Use, Peak Time Rebate, and Critical Peak Pricing tariffs. This would need to be examined further.

<u>Rationale for Task Force's Decision to Not Recommend that We Energies Implement Lifeline Rates</u>

Based on its review of the above research, the Low Income Task Force is not recommending that We Energies offer lifeline rates to program participants or any other customers. There are many reasons for this decision, but a few stand out. First, depending on the tariff design, low-income customers who truly need to use large amounts of energy could end up with higher bills, less ability to pay, and even worse problems than they have under the status quo. Second, the LITF is trying to design a Revised Low Income Program that will be cost effective and thus benefit all ratepayers, whereas lifeline rates merely transfer costs from some customers to others. Third, designing lifeline rates is no simple matter and would be enormously challenging for the members of the LITF, most of who have no experience in ratemaking, to undertake.

E. CONCLUSION AND RECOMMENDATIONS

Since October 2010, the LITF has worked to fulfill the PSCW's directive to examine all aspects of the current LIP and related low-income issues. The LITF diligently researched and analyzed these issues and applied the lessons learned in creating a new program, the RLIP, for low-income We Energies customers that currently qualify for the LIP program.

The LITF researched best practices in providing energy assistance to low-income utility customers and concluded that best and common practices could serve as a guide for its work in designing the RLIP. Several lessons from the best practices were incorporated into the RLIP's design. The best practices research also concluded that the LIP was on par with similar programs sponsored by other utilities.

As directed by the PSCW, the LITF analyzed the pros and cons of lifeline rates and concluded that lifeline rates should not be pursued. The LITF found that using lifeline rates does not benefit all utility customers and actually could lead to higher bills for some customers. In addition, the LITF lacked the expertise that would be required to evaluate and recommend their implementation in the RLIP.

The LITF's examination of the current LIP program included presentations by We Energies on the population served and the processes used to serve the population with the program. The LITF also heard presentations by the partner social service agencies on their roles. These perspectives guided the LITF's work on investigating the effectiveness of the program.

With a clear understanding of the current LIP, the LITF crafted the RLIP to better serve the at-risk population of We Energies customers in Milwaukee and Waukesha Counties. It preserves the best components of the current LIP and incorporates minor changes to improve the overall program.

Several changes were made to the program with a dual focus of 1) ensuring RLIP is cost effective and in the best interest of all ratepayers, and 2) improving the assistance that is provided.

The LITF analyzed the business case for the RLIP at length. The LITF has concluded that the RLIP proposed in this report will result in a program that is cost-effective. A subcommittee of the LITF provided an analysis of the program from the perspective of a ratepayer to prove the financial benefits of the current LIP and the proposed RLIP. Both this perspective and conclusion have been independently verified.

The PSCW also directed that the LITF examine the current LIP's inclusion of escrow accounting. After evaluating the value of escrow accounting, the LITF recommends that We Energies have escrow accounting treatment of all residential uncollectible expenses because of the unique population it serves.

In efforts to improve the assistance provided, the LITF recommends narrow exceptions for enrollment and removal be included in the program, to provide We Energies and participants limited flexibility. The RLIP does not include the educational component of the current LIP, because some members of the LITF were skeptical about its worth. The RLIP instead includes optional referrals to energy conservation and financial literacy training. As a result, failing to attend the trainings will no longer be cause for removal from the program.

The RLIP is proposed as a permanent program with recommendations and criteria for expansion. The LITF recommends an expansion of the RLIP into Kenosha County and Racine County because of the demonstrated need for a low-income energy assistance program in both counties. The LITF also recommends an expansion of the RLIP's enrollment cap in Milwaukee County because of a demonstrated need for further low-income energy assistance. This expansion would hinge on the availability of a viable support structure.

The role of social service agencies as case managers is preserved in the RLIP. Based on best practices and the experience of the current LIP, social service agencies can effectively fill a unique role in energy assistance programs.

This RLIP is a result of the LITF's extensive research into the current LIP, the preservation of the best components of the current LIP, best practices research, and the reliance on the experience and knowledge of the stakeholders who actively took part in the LITF.

The LITF recommends to the PSCW that We Energies and the partner agencies implement the proposed RLIP in its entirety. It is a comprehensive package designed to achieve program goals, satisfy the objectives of the LITF, provide assistance to those at risk, and be cost-effective.